

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MEETING OF THE BOARD OF DIRECTORS
August 20, 2014**

MINUTES

Present:

Treasurer Young Boozer, Chair
Dr. Greg Fitch
Ms. Maria Campbell
Mr. Mark Green for Dr. David Bronner
Mr. Robert Bradley
Mr. Sandy Hammer
Gen. Paul Hankins
Ms. Jane Leatherwood for Dr. Mark Heinrich
Ms. Patti Lambert
Dr. William Meehan
Mr. Mark Sullivan

Absent:

Sen. Trip Pittman
Mr. Bill Newton
Rep. Bill Poole
Mr. Jimmy Stubbs

Others present include:

Ms. Daria Story, Assistant Treasurer
Ms. Glenda Allred, Deputy Treasurer
Mr. Chad Wright, Director of Cash Management
Ms. Anita Kelley, Program Director
Mr. Barry Bryant, Dahab Associates
Mr. Dan Sherman, Sherman Actuarial Services
Mr. Chad Bryan, Capell Howard
Ms. Diane Steinhilber, Jackson Thornton

Agenda Item 1.

Pursuant to written and public notice, the quarterly meeting of the Board of Directors of the PACT Program was held in the Board Room of the RSA Headquarters on August 20, 2014. The meeting was called to order by Chair Young Boozer at 1:05 p.m.

Agenda Item 2.

Chair Boozer introduced the new board members that were present which were Mr. Robert Bradley, Ms. Maria Campbell and Mr. Sandy Hammer. He stated that Sen. Trip Pittman and Rep. Bill Poole were also new members.

Agenda Item 3.

Roll was taken with a quorum present.

Agenda Item 4.

Chair Boozer presented the minutes of the May 21, 2014 board meeting. A motion for approval of the minutes as presented was made by Gen. Hankins, seconded by Mr. Sullivan, with unanimous approval.

Agenda Item 5A.

Chair Boozer asked Mr. Chad Wright for a program report. Mr. Wright provided information on program activities, cancellations, trust fund assets, and the budget. He stated that there are currently 29,599 active accounts, 18,982 eligible beneficiaries and \$839,892,481 in benefits have been paid to date. He said that all summer invoices have been paid and that fall invoices are currently being processed.

Agenda Item 5B.

Chair Boozer announced that Chad Wright had taken another position within the Treasury Department as Director of Cash Management. He introduced Anita Kelley as the new Program Director for PACT.

Agenda Item 5C.

Chair Boozer asked Mr. Chad Bryan for an overview of the Settlement Agreement. Mr. Bryan was the counsel before and during the settlement agreement. He stated that benefits are currently being paid according to the settlement agreement which is a flat rate instead of being tied to current tuition levels. The rate being paid is the fall 2010 tuition rate for instate schools and \$228.74/per credit hour for private and out of state schools. He said that under the terms of the settlement, the rate amount paid cannot be decreased however the amount could be increased at the board's discretion if the actuarial condition of the PACT Program improves. He reviewed the agreement in general terms.

Agenda Item 5D.

Chair Boozer asked Mr. Barry Bryant to provide the quarterly investment report. Mr. Bryant stated that the Pact funds are totally invested in a fixed income portfolio. He provided a brief overview of the economy in general and stated that the economy grew 4% for the second quarter and that domestic stocks grew 5% and bonds grew at a rate of 2%. He provided a summary of portfolio and investment manager performance and stated that the total portfolio earned 0.7 % for the quarter, which ranked it in the 23rd percentile. He stated that both managers, Mackay Shields and Longfellow, outperformed their benchmarks for the quarter. Mr. Bryant stated that, according to the Board's investment policy statement, the entire portfolio will be transferred to short-term investments by the end of the year. Therefore, all remaining intermediate assets will be utilized for payment of upcoming tuition invoices in order to be in compliance.

Agenda Item 5E.

Chair Boozer asked Daniel Sherman to provide information on the quarterly actuarial report. He stated that program assets as of June 30, 2014 were approximately \$184 million compared to \$231 million as of September 30, 2013. Mr. Sherman stated that the funded ratio was 112.5% as of quarter end. He provided a summary of the projected cash flow and indicated that FY19 is showing in the positive due to better than expected investment returns and beneficiaries using less than the expected 128 hours. Mr. Sherman stated that at the end of the program, the numbers are indicating a surplus of \$106 million. Patti Lambert asked when an increase in the amount paid for tuition might be expected. Chair Boozer stated the Board will consider an increase when it is deemed there is sufficient cash flow so that an increase would be sustainable through all years including FY19.

Agenda Item 6A.

Chair Boozer called on Mr. Daniel Sherman to summarize the proposed actuarial assumptions for the annual report FY14. He reviewed the assumptions, and provided some general education regarding the actuarial process. A motion to approve the actuarial assumptions was made by Dr. Meehan, seconded by General Hankins, with unanimous approval.

Agenda Item 6B.

Chair Boozer summarized a proposed resolution regarding the creation of a reserve account for future payment of administrative costs. Since inception, monies have been transferred from the PACT Trust Fund to the PACT Administrative Fund to cover operating expenses. As the PACT Trust Fund is depleted in future years, there will be no remaining funds to cover these costs. Allocations from the Education Trust fund are designated for payment of benefits only. The proposed resolution creates a Reserve for Administrative Costs account within the PACT Trust Fund. Monies could be transferred annually from the Reserve for Administrative Costs to the PACT Administrative Fund for payment of all administrative expense appropriated by the Alabama Legislature.

A motion to adopt the resolution was made by Mr. Green, seconded by Dr. Meehan, with unanimous approval.

Agenda Item 6C.

Chair Boozer called on Mr. Chad Wright to present information regarding a petition from an account owner requesting an exception to a PACT rule. Mr. Wright provided a brief summary of the petition and stated the request had been presented to Treasury legal counsel for review in accordance with program bylaws. He stated that the request was for a contract owner to transfer hours below the 32 hour minimum requirement from one beneficiary to another beneficiary. Based on PACT rules, the contract owner's request was declined. Mr. Wright said that legal counsel also recommended the request be declined. The board discussed the petition.

A motion to accept legal counsel recommendation to decline the request was made by Dr. Meehan, seconded by Gen. Hankins, the motion passed with one dissenting vote by Patti Lambert.

There being no further business to be discussed, a motion for adjournment was made by Dr. Meehan, seconded by Gen. Hankins, with unanimous approval. The meeting adjourned at 2:15 p.m.

Anita Kelley, Recording Secretary

Young Boozer, Chair